IFRS 9 and IAS 7

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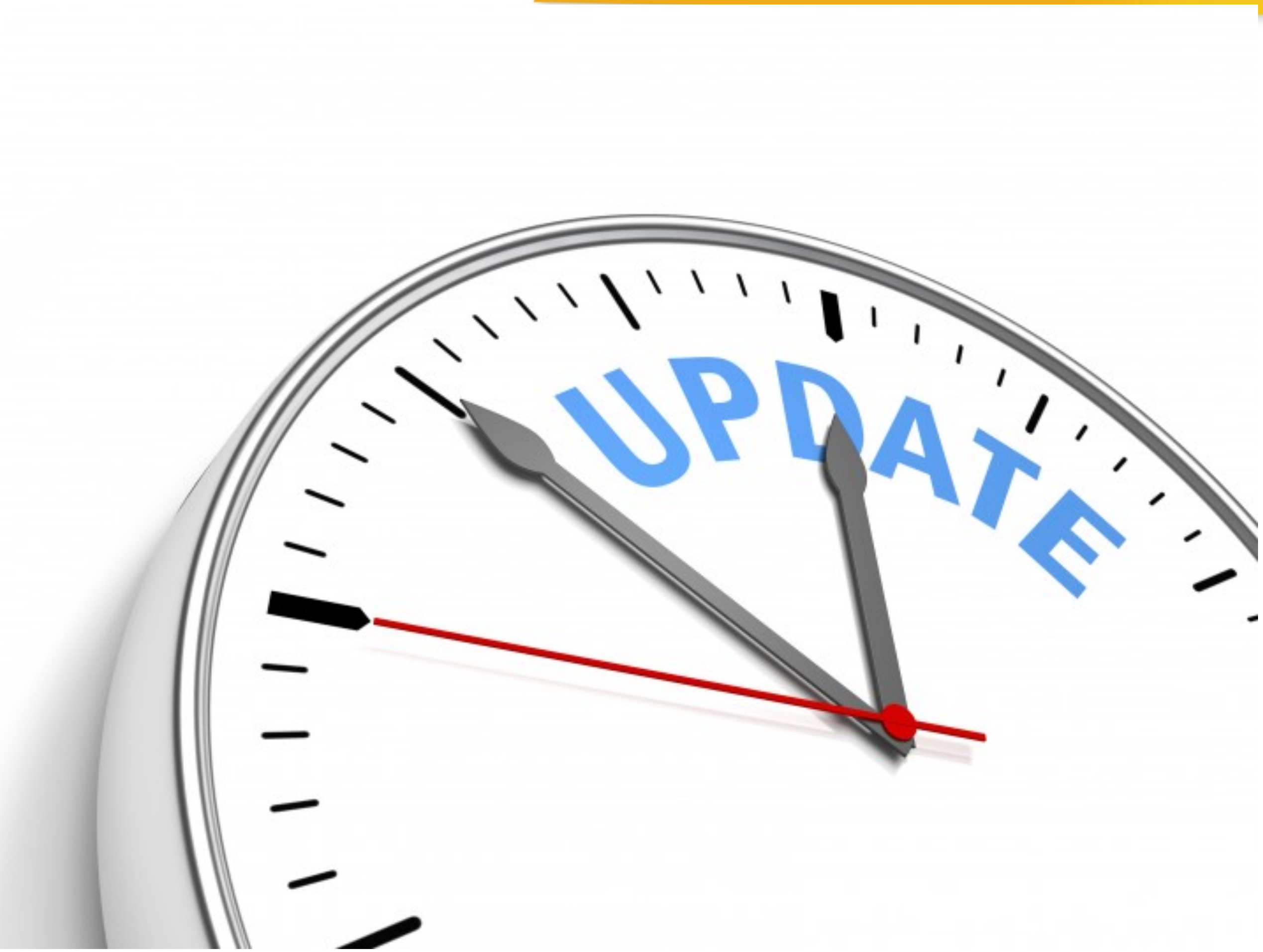
D&Co IFRS Update



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Agenda

New standards under IFRS

- IFRS 9 Financial Instruments
- IAS 7 Disclosure of Cash Flows

Overview – IFRS 9

- Effective for years commencing on or after January 1, 2018
- Uses a business model test for assets (classifications based on how they are managed)
- Affects long term loans, equity investments, non-vanilla financial assets and hedging

IFRS 9 – Asset Classification

Now 2.5 classifications for financial assets (previously 4)

1. Amortized cost (effective interest method) – assets held to collect contractual cash flows only
2. Amortized costs and for sale – assets held to collect contractual cash flows and for sale
3. Fair value

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IFRS 9 – Asset Classification

- Determine the type of asset. Is it:
  - Receivable – vanilla or not
  - Equity
- For **Vanilla receivable** – use the business model test
  - Business model is hold, classify as amortized cost
  - Business model is sell , classify FVOCI
- For **other receivable** ("FVTPL")

IFRS 9 – Asset Classification

- If the financial asset is **equity** (shares in a public or private company)
  - Elect at initial recognition for each asset purchased to recognized changes in value as **FVTPL or FVOCI**

IFRS 9 – Measurement Considerations

Equity investments

- Are measured at fair value
  - No longer appropriate to measure at cost

IFRS 9 – Measurement Considerations

Non-equity financial assets (cont'd)

- Are measured using one impairment test – the Expected Credit Loss ("ECL") approach
- "12 month ECL's", "lifetime ECL", "lifetime credit impaired ECL"

IFRS 9 – Measurement Considerations

For trade receivables can use a simplified approach

- Record lifetime ECL's at initial recognition of trade receivable

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IFRS 9 – Financial Liabilities

- Not a lot of change from IAS 39
- Still have either of FVTPL and Other liabilities
- Hedging - Revised standard is simpler to apply

IFRS 9 – Disclosure

More!

- Analysis
- Information on credit risk
- Reconciliations

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IFRS 9 – Transition

- Should be applied retrospectively, no requirement to restate comparatives but must reconcile opening retained earnings and OCI

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IFRS 9 – Basic Transition Steps

1. Determine **business model** for holding financial assets based on facts and circumstances at DIA. Apply outcome retrospectively to all prior periods

2. Evaluate whether debt instruments comprise **solely payment of principal and interest** (SPPI)

IFRS 9 – Basic Transition Steps

3. Revoke designations to measure at FVTPL

4. May <u>irrevocably</u> designate any individual **SPPI** debt financial asset to be measured at FVTPL to reduce/eliminate accounting mismatch

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IFRS 9 – Basic Transition Steps

5. If investments in equity instruments previously carried at cost because there was no quoted price in an active market -> measure at FV at DIA

6. May <u>irrevocably</u> designate any individual **equity investment** held as a financial asset to be carried at FVOCI and apply retrospectively

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IFRS 9 – Basic Transition Steps

7. For hybrid financial assets; if not previously measured at FVTPL reassess components, then the FV of hybrid in comparative periods = sum of FV components. Any difference through opening R/E

8. May designate Liabilities to be held at FVTPL – assess whether presenting changes in credit risk would create or enlarge an accounting mismatch. Apply retrospectively

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IFRS 9 – Basic Transition Steps

9. If derivative liability previously carried at cost because there was no quoted price in an active market -> Measure at FV at DIA

IFRS 9 – Basic Transition Steps

10. Use reasonable and supportable information that is available without undue cost or effort to determine credit risk at date initially recognized and compare to credit risk at DIA

- Can assume:
  a) Credit risk not increased significantly since initial recognition if low credit risk
  b) Credit risk has increased significantly if <u>payment more than 30 days past due</u>

- May recognize loss allowance = lifetime ECL at DIA

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IAS 7 – Cash Flow Disclosure

- Amendments to IAS 7 to improve information provided to users

- Effective for annual periods beginning on or after January 1, 2017

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IAS 7 – Cash Flow Disclosure

To meet the disclosure objective of these changes, entities will need to disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes from obtaining or losing control of subsidiaries or other businesses
- Effect of changes in foreign exchange rates
- Changes in fair values etc.

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